

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 EB-07 XMB-04 AGR-10 TRSE-00 AID-05 SP-02

OMB-01 OPIC-06 CIEP-02 CIAE-00 INR-07 NSAE-00 RSC-01

/056 W

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P R 200715Z DEC 74

FM AMEMBASSY JAKARTA

TO USDOC WASHDC PRIORITY

INFO SECSTATE WASHDC 5776

AMCONSUL HONG JONG

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

UNCLAS SECTION 1 OF 2 JAKARTA 15253

DEPT PASS EXIM, STATE FOR EA/IMS GEBER, USDOC FOR BIC/OED/MEPD&OIM

EO 11652: N/A

TAGS: BEXP ID

SUBJ: SUGAR MILL CONSTRUCTION

REF: A. STATE 273406 B. JAKARTA 15003 C. JAKARTA 15002

D. JAKARTA 14462 E. SURABAYA 0532

### 1. BEGIN SUMMARY

1. UPON RECEIPT REF A, WHICH APPARENTLY CROSSED  
OUR REF B IN TRANSIT, EMBASSY ATTEMPTED CONTACT  
SATAR LOEBIS, WHO UNAVAILABLE UNTIL AFTER  
DECEMBER 26. MEANWHILE WE HAVE TALKED WITH  
SEOTJIPTO AND WITH SEVERAL NON-GOI PARTIES,  
INCLUDING AMCONSULATE SURABAYA, REF REF A QUESTIONS  
AND PROPOSED DUAL PURPOSE TASK FORCE. CON-  
CLUSIONS AND RECOMMENDATIONS FOLLOW. END SUMMARY

2. US FIRMS ESSENTIALLY CORRECT IN THEIR  
REF A ASSESSMENT THAT EXIM FINANCING CRITICALLY  
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IMPORTTANT TO US SUCCESS ON NEW GOI SUGAR PROJECTS

(IN THIS RESPECT PARA 8 REF C AND LAST SENTENCE REF D ARE RELEVANT). REF B MENTIONED POTENTIAL COMPETITIVE FINANCING FROM UK, FRANCE AND BELGIUM, AND WE HAVE NOW LEARNED THAT FRENCH HAVE OFFERED \$200 MILLION LOAN (PROBABLY AVERAGE INTEREST RATE BELOW 10 PCT INTEREST) FOR BOTH REHABILITATION AND NEW SUGAR MILL CONSTRUCTION. MOREOVER, SOETJIPTO HAS TOLD US THAT ALL BKU PNP PLANNED PROJECTS ARE CONTINGENT ON FINDING OUTSIDE FINANCING. NEVERTHELESS REF A PARA 7 SUGGESTION THAT US FIRMS WOULD HAVE NO RPT NO CHANCE WITHOUT EXIM FINANCING IS NOT RPT NOT ENTIRELY CORRECT. IBRD HAS FUNDED TATE LYLE FEASIBILITY STUDY AND WILL SERIOUSLY CONSIDER FINANCING ONE NEW SUGAR MILL IF FEASIBILITY PROVEN OUT. LIKE EXIM, HOWEVER, IBRD WILL ONLY CONSIDER

SUCH FINANCING AFTER FEASIBILITY STUDY COMPLETED IN MARCH. ALSO SUGAR EXPANSION SUFFICIENTLY HIGH ON GOI PRIORITY LIST TO WARRANT DIRECT GOI EXPENDITURE ITS OWN FOREIGN EXCHANGE IF OUTSIDE FUNDING FAILS MATERIALIZE (AN UNLIKELY EVENTUALITY IN VIEW ACTIVE GOI EFFORTS OBTAIN OUTSIDE FUNDING AND APPARENT FOREIGN GOVERNMENT INTEREST IN SUPPLYING SUCH FINANCING).

3. ALTHOUGH IMMEDIATE TERM FINANCING UNCERTAINTIES HANG OVER PROSPECTS US PARTICIPATION IN ALL SIX NEW GOI MILLS, WE MUST NOT RPT NOT LOSE SIGHT OF EVEN LARGER FUTURE PLANS FOR GOI/PRIVATE REHABILITATION PROJECTS AND FOR CONSTRUCTION NEW PRIVATE MILLS. IBRD ESTIMATES TOTAL GOI SUGAR MILL REHABILITATION PROGRAM DURING REPLITA II (1974-79) WILL COST ABOUT \$385 MILLION, AN AMOUNT EQUALLY ESTIMATED COST THE SIX NEW MILLS. PRIVATE SUGAR MILLS MAY REQUIRE LIKE AMOUNT FOR THEIR REHABILITATION PLANS. FINALLY, SEVERAL (6-7) EXISTING SUGAR PRODUCTION SITES IN JAVA HAVE BEEN DESIGNED FOR CONSTRUCTION OF NEW MILLS EITHER BY GOI OR PRIVATE FIRMS. WHILE MUCH OF UNCLASSIFIED

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FINANCING FOR REHAB AND PRIVATE SECTOR WORK YET TO BE

DECIDED, BOTH ADB AND IBRD HAVE MADE INITIAL COMMITMENTS, WHICH THEY WILL PROBABLY EXPAND. US EXIM ALSO A FUTURE POSSIBILITY FOR WITH PRIVATE OR GOI PROJECTS, AND GOI RECOURSE TO ITS OWN FOREIGN EXCHANGE RESERVES FOR SOME GOI REHABILITATION WORK POSSIBLE IF SUFFICIENT OUTSIDE

FUNDING UNAVAILABLE.

4. COMBINATION NEW GOI MILLS WITH REHAB AND PRIVATE  
SECTOR PLANS THUS SPELL TOTAL MARKET IN RANGE  
\$700 MILLION TO \$1 BILLION OVER NEXT FIVE YEARS.  
WITH SEVERAL FINANCING ALTERNATIVES POSSIBLE,  
WE HAVE EVERY REASON BELIEVE US FIRMS WILL  
ULTIMATELY HAVE OPPORTUNITY COMPETE FOR SIGNIFICANT  
SHARE THIS ENORMOUS MARKET. THEREFORE, AMCONSULATE  
SURBAYA AND EMBASSY JAKARTA REMAIN CONVINCED  
REF B MISSIONARY SALES EFFORT DESIGNED UPGRADE  
MAREKTING COMPETITIVENESS OF US FIRMS TO MORE  
EQUAL FOOTING WITH ENTRENCHED EUROPEAN COMPE-  
TITORS WILL YIELD GREATER LONG TERM RESULTS  
THAN HASTY RESPONSES TO HIGHLY SEDUCTIVE BUT STILL  
EXPLORATORY REF D REQUEST FOR EXPRESSIONS OF INTERST.

5. WE CONCUR COMPLETELY WITH REF A SUGGSTION  
FO COMBING PROMOTION EVENT AND PROPOSAL  
PRESENTATION OBJECTIVES  
TO SINGLE DUAL PURPOSE  
TASK FORCE, AN WE ARE HIGHLY PLEASED BY EXTREMELY  
FORTHCOMING, AGGRESSIVE REACTION THUS FAR FROM US  
FIRMS INTERSTED IN PRESENTING PROPOSALS FOR  
SIX NEW MILLS. CERTAINLY US CHANCES FOR PARTI-  
CIPATION IN NEW MILLS WILL HINGE ON SUCH STRONG  
PRESENTATION AT SOME POINT. #923;34, WE ARE  
ANXIOUS THAT WASHINGTON PREPARATIONS FOR PROPOSAL  
PRESENTATION GROUP VISIT NOT RPT NOT OVER SHADOW  
PREPARATIONS FOR OTHER COMPONENT OF TASK FORCE,  
IE STRUCTURED SURABAYA PROMOTION EVENT, WHICH  
WE THINK DESERVES GREATER EMPHASIS OF TWO TASK FORCE  
COMPONENTS.  
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P R 200715Z DEC 74

FM AMEMBASSY JAKARTA

TO USDOC WASHDC PRIORITY

INFO SECSTATE WASHDC 5777

AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

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6. WHEN ASKED TO EXTEND DEADLINE FOR BID SUBMISSIONS AND ALSO WHETHER PROPOSAL PRESENTATION VISIT APPROPRIATE AT THIS TIME, SOETJIPTO REEMPHASIZED THAT BKU PNP TELEX NOT RPT NOT AN INVITATION TO BID BY ONLY GOI ATTEMPT DETERMINE FOREIGN FIRMS CAPABILITY AND INTEREST. HE SAID INTERESTED FIRMS FIRST STEP SHOULD BE ASSURE FUNDS AVAILABLE (FROM THEIR GOVT) TO GOI FINANCE MINISTRY, AFTER WHICH BIDDERS VISIT TO BKUPNP OF COURSE NECESSARY. UNDER THESE CIRCUMSTANCES EMBASSY HAS CONSIDERED AND REJECTED ARGUMENTS FAVORING REDUCING SCOPE OF SURABAYA PROMOTION EVENT IN ORDER EXPEDITE ARRIVAL TASK FORCE PROPOSAL PRESENTATION COMPONENT EARLIER THAN REF E PROJECTED FEB/MARCH SCHEDULE, PARTICULARLY SINCE ANY FINANCING COMMITMENT GOI MAY RECEIVE PRIOR THAT DATE WOULD PRESUMABLY EXCLUDE US PARTICIPATION ANYWAY. WE CONVINCED THAT FIRST RATE PROMOTION EVENT EFFORT BEFORE END MARCH IS AS VITAL TO US COMPETITIVENESS ON SIX NEW PROJECTS AS ON LONGER RANGE OPPORTUNITIES. UNCLASSIFIED

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7. THUS WE BELIEVE PRIMARY EMPHASIS OF DUAL PURPOSE TASK FORCE SHOULD BE PLACED ON CLEARLY DEFINED SURABAYA EVENT OR SHOW HELD AT SPECIFIC EXHIBIT SITE WHICH IS HIGHLY PUBLICIZABLE. PARTICIPANT FIRMS SHOULD ENCOMPASS MAXIMUM POSSIBLE RANGE SUGAR ACTIVITIES SPECIFIED PARA 3 REF E. ACONSULATE SURABAYA WOULD WELCOME SUGGESTIONS AS TO HOW SUCH EVENT MIGHT BEST BE STAGED AND IS

CONSIDERING SUCH ELEMENTS AS CATALOGUE SHOW, SLIDE PRESENTATIONS, FILMS, MODELS OR FACTORY MOCKUPS, AND TECHNICAL LECTURERS OR SEMINARS. SUGAR EQUIPMENT AND SERVICES EXPORT ASSOCIATION INC (SESEA) MENTIONED REF A MIGHT SUGGEST AND HELP ORGANIZE INGREDIENTS OF TYPE EVENT REQUIRED IN SURABAYA. USIA MAY ALSO ASSIST WITH AUDIO VISUAL INPUT.

7. EMBASSY THEREFORE REQUESTS USDOC PROCEED WITH PLANS FOR DUAL PURPOSE TASK FORCE MEETING FIRST WITH SESEA AND USIA TO ENLIST THEIR PARTICIPATION AND ASSISTANCE IN ORGANIZING SURABAYA EVENT. SURABAYA AND JAKARTA PREPARED RECEIVE TASK FORCE AS SOON AS BOTH THE PROPOSAL PRESENTATION COMPONENT AND THE EXHIBIT COMPONENT DESCRIBED ABOVE CAN BE ORGANIZED.

8. MEANWHILE, IF GROUP FORMING AROUND FULTON IRON WORKS (INCLUDING WESTERN STATES, DORR OLIVER, AND LANG ENGINEERING) FEEL STRONGLY THAT THEY SHOULD MAKE PRESENTATION TO SATAR LOEBIS PRIOR TO SCHEDULED VISIT DUAL PURPOSE TASK FORCE, EMBASSY SUGGESTS THEY NAME ONE PERSON TO REP GROUP AND THAT HE VISIT LOEBIS IN JAKARTA. ALTERNATIVELY, GROUP MIGHT AUTHORIZE ANDARIA OF KIAGOOS TO DISCUSS PROPOSAL IN DEPTH WITH SATAR LOEBIS.

9. FULTON GROUP AND ALL OTHERS SHOULD GIVE SERIOUS CONSIDERATION TO INCLUDING MANAGEMENT COMPONENT IN THEIR APPROACH; FOR SOETJIPTO

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HAS ADVISED EMBASSY THAT BKUPNP STRONGLY PREFERS ALL INCLUSIVE PACKAGE. EMBASSY CONCLUDES BKUPNP TELEX ALTERNATIVES CC1 THROUGH 4 (REF D) ARE SHOWN IN ASCENDING ORDER OF PRIORITY, WITH CC1 LEAST DESIRABLE. BKUPNP WANTS FASTEST POSSIBLE DELIVERY AND SIMPLEST WORKING RELATIONSHIP WITH CONTRACTOR, IE ONE FOREIGN FIRM SPEAKING FOR CONSORTIUM GROUP OFFERING COMPLETE TURN KEY PACKAGE INCLUDING TWO YEARS START-UP MANAGEMENT.

10. REASON FOR THIS SEEMINGLY DRASTIC APPROACH IN BKUPNP HAS BEEN INSTRUCTED TO EXPAND SUGAR PRODUCTION FROM CURRENT APPROXIMATE 1 MILLION TONS TO 1.5 MILLION TONS BY 1977. THEREFORE THEY PLAN BEGIN PROCUREMENT FOR

SIX NEW MILLS IN MARCH, 1975 AND COMPLETE MILLS  
READY FOR TRIAL PRODUCTION BY MAY 1977.  
SITES FOR THESE MILLS (RE PARA 7 REF A) WILL BE  
TAKALAR (S SULAWESI)-ONE HULL; HUTAN LOYANG  
(W JAVA-NEAR CIREBON)-TWO MILLS; AND TUNUNG  
BATIN (LAMPUNG S SUMATRA)- THREE MILLS. ONE  
OF TUNUNG BATIN MILLS IS BEING RESERVED FOR  
IBRD FUNDED WHITE SUGAR MILL, WHILE OTHER TWO  
WILL BE RAW SUGAR MILLS. TATE LYLE  
FEASIBILITY STUDY COVERS TUNUNG BATIN AND  
TAKLAR SITES. SINCE SUGAR PREVIOUSLY BEEN  
GROWN AT HUTAN LOYANG, THIS SITE PRESUMABLY  
WILL BE AMONGST FIRST PROJECTS IMPLEMENTED.  
ALSO NO KNOWN TECHNICAL DIFFICULTIES FACE TUNUNG  
BATIN SITE, WHICH IS ON FLAT LAND AND IN  
SPARSELY POPULATED AREA. YIELD WOULD BE LOWER  
AT TUNUNG BATIN, BUT ABSENCE OF PEOPLE  
ON LAND SHOULD REDUCE COST MOVING THEM. TAKALAR  
SITE HOWEVER COULD ENCOUNTER SOME DELAYS DUE  
TO PRESENCE OF EXISTING POPULATION ON SITE WHICH  
WILL HAVE TO BE REMOVED.

11. AVERAGE ESTIMATED PROJECT COST FOR ALL  
NEW INDONESIAN SUGAR MILLS AT VARIOUS SITES IS  
APPROXIMATELY \$800 PER ANNUAL TON OF SUGAR PRODUCED.  
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EXPECTED YIELD IS 10 TONS SUGAR PER HA.

12. WHEN SATAR LOEBIS RETURNS EMBASSY PLANS  
HOLD IN-DEPTH DISCUSSION WITH HIM REGARDING RE-  
HABILITATION AND NEW PROJECTS. WE WILL ALSO  
MEET MONDAY DECEMBER 23 WITH BANKAMERICA,  
WHO HAVE INVESTIGATED SUGAR DEVELOPMENTS, WANT  
FUND 1-2 GOI NEW MILLS, AND THEREFORE MAY BE ABLE  
PROVIDE SOME TYPE PARTIAL CONDITIONAL FINANCIAL  
COMMITMENT WHICH MIGHT PERSUADE SATAR LOEBIS  
RESERVE ONE OR MORE NEW MILLS FOR US  
GROUP UNTIL EXIM CAN REVIEW FEASIBILITY STUDY  
IN MARCH. BANK AMERICA ALSO VERY INTERESTED  
PARTICIPATING SURABAYA PROMOTION EVENT.  
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